



# Current Oil Market Situation

21 June 2005

**Oil Industry and Markets Division**

## **Oil Market Report**

A unique source of oil market analysis provided by the International Energy Agency

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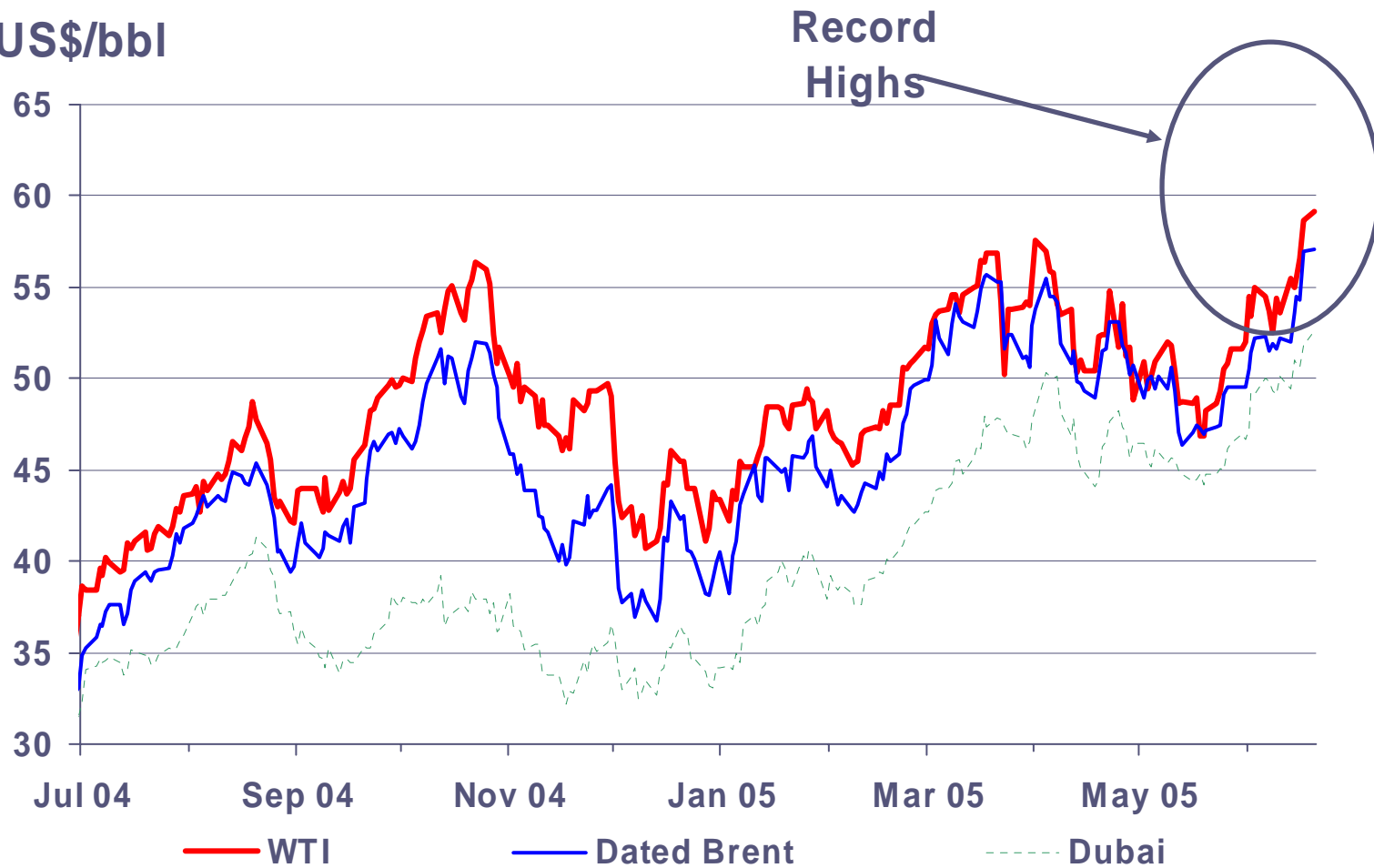
## Record crude prices driven by Q4/ mid-term fears

- ❑ Dated Brent \$57.06 WTI and Brent in contango through to December
  - ❑ \$22 higher than 2004, \$30 up on 2003
  - ❑ But 12 month futures \$26 higher
  - ❑ Winter WTI prices above \$60 Brent prices have stayed above \$50, Brent above \$55 to January 2008
- ❑ - but why??
- ❑ Expectations of tight winter supplies
  - ❑ diesel /crude
- ❑ Stock building
  - ❑ US stocks 26 mb higher at 329 mb, but down 5 mb in past 4 weeks
  - ❑ But crude stock gains uneven across OECD and countered by product stock draw
- ❑ Continuation of high prices in medium term
- ❑ Geopolitical issues
  - ❑ Iraq, Nigeria, Norway etc
- ❑ Fears OPEC will drip-feed supplies
  - ❑ Saudi Arabia not prepared to raise supply until it sees demand
  - ❑ Others suggest higher output will only come if prices remain above \$50
- ❑ Still no sign of non-OPEC output surge, but some signs of demand effects
- ❑ Lack of refinery upgrading capacity reflected by continued wide spread between transportation fuel and fuel oil highlights
  - ❑ Gasoil to fuel oil spread now back up to \$35 – near historic peak



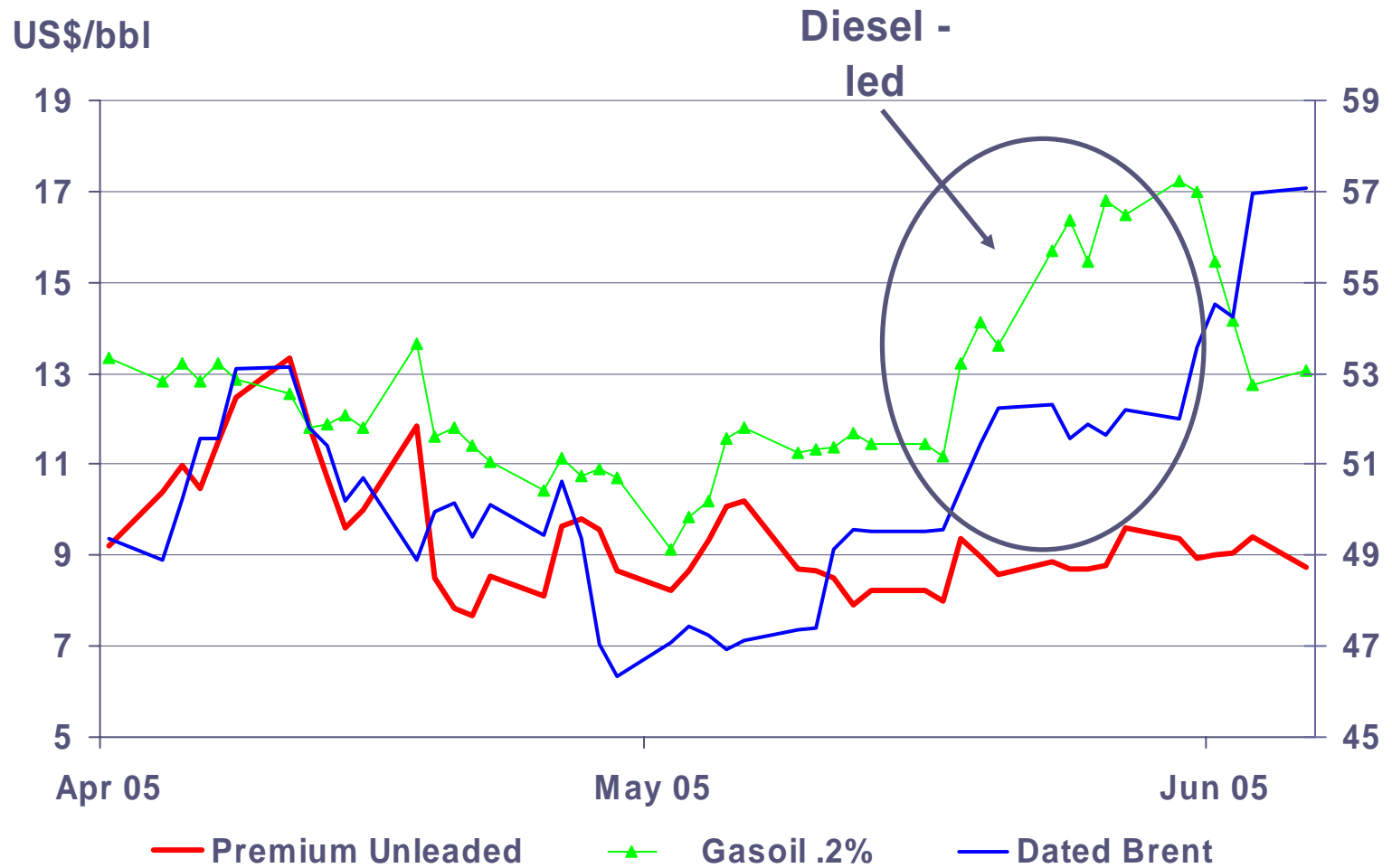
## Spot Benchmark Crude Prices Return to Highs

US\$/bbl



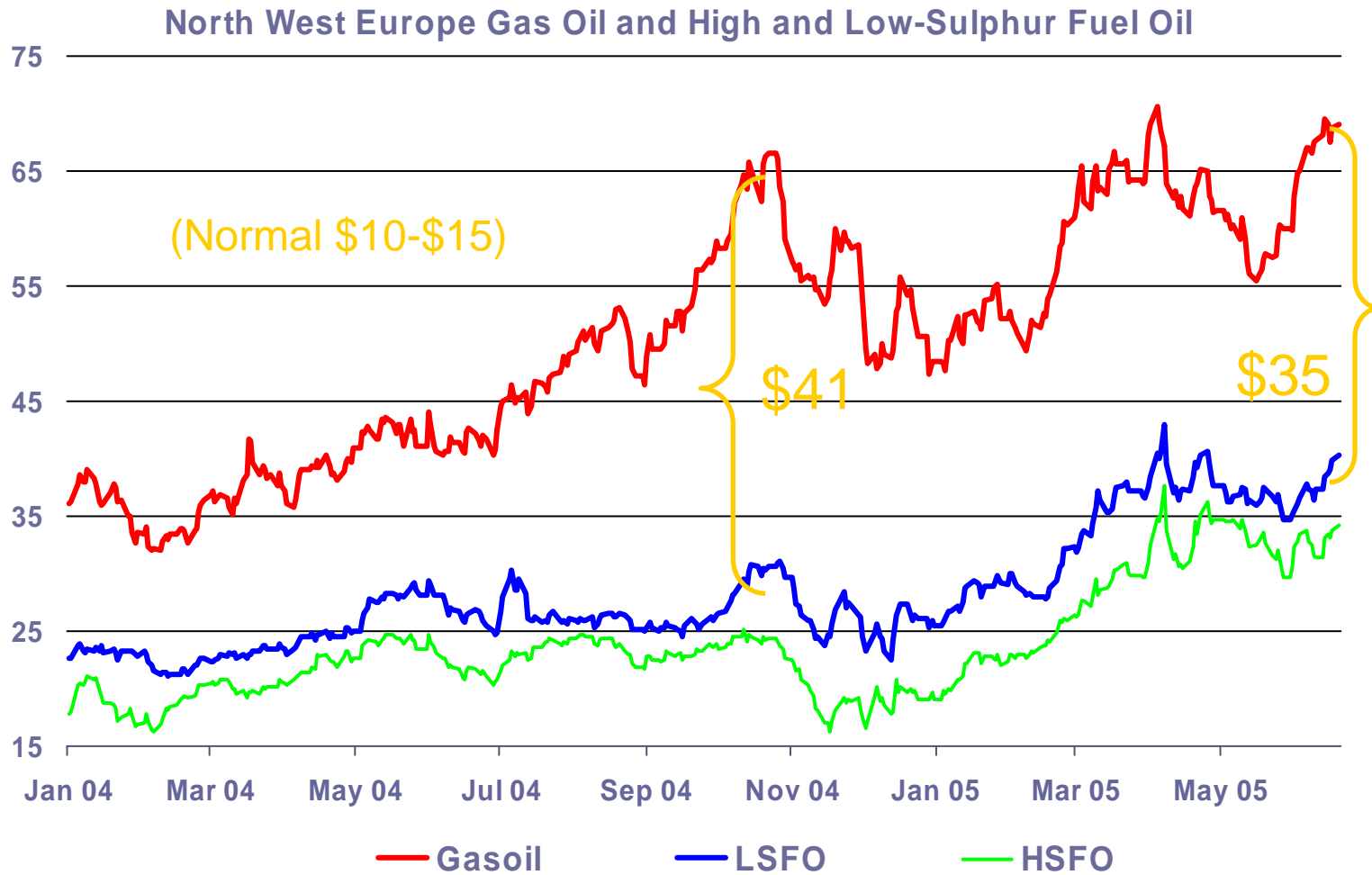


## Latest rally - initially diesel led, but not last \$5





## But Wide Gasoil/Fuel Oil Spread Continues to Show Lack of Refinery Upgrading Capacity



Too much fuel oil, not enough transportation fuels



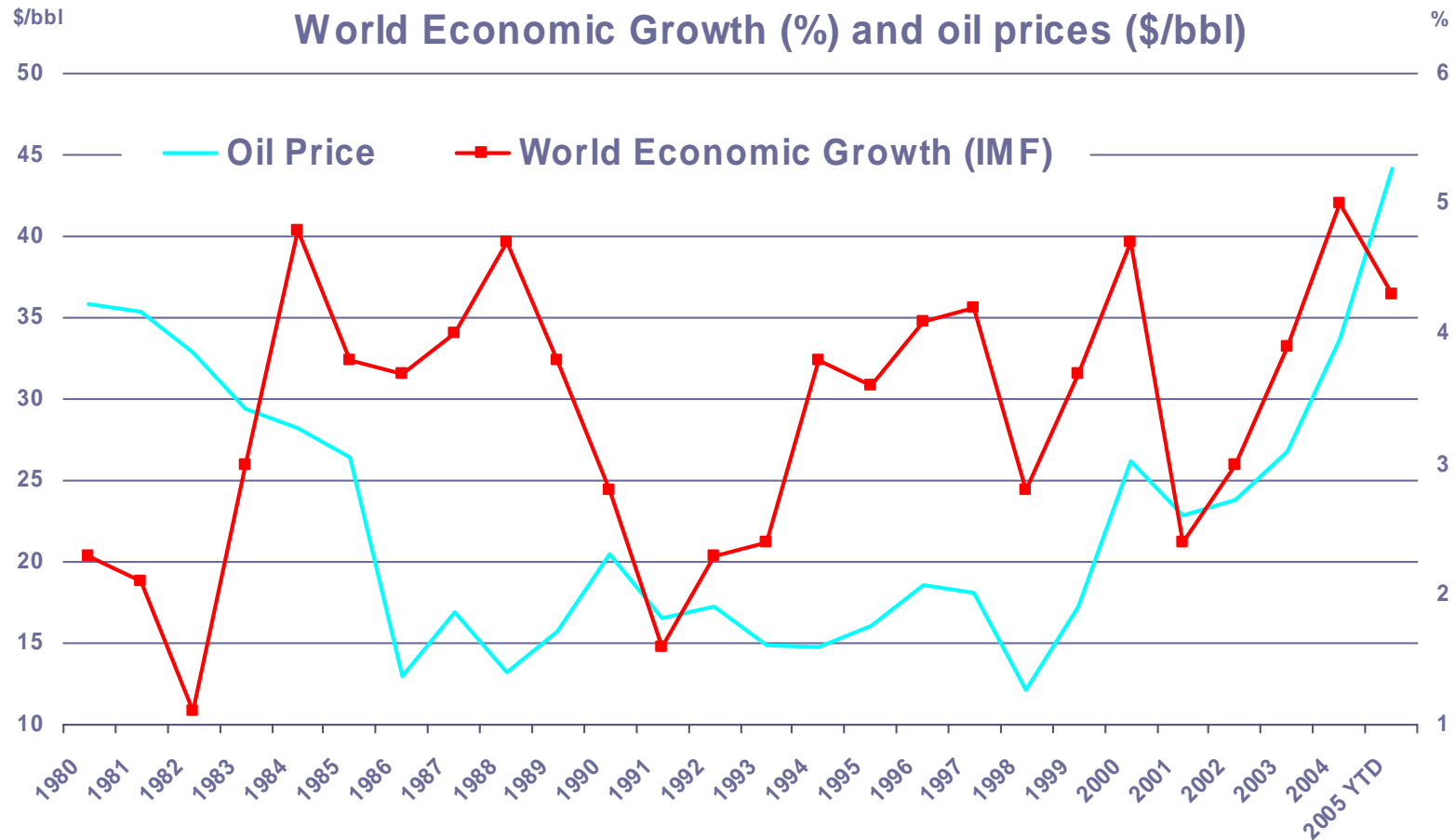


## ... As Fundamentals Still Generally Strong

- ❑ World oil demand growth forecast to remain above trend
  - ❑ up 2.2% or 1.78 mb/d in 2005
- ❑ Chinese oil demand growth to remain strong
  - ❑ but to moderate from last year's 15.4% growth
  - ❑ Q1 2005 growth 4.3% vs 18% Q1 2004
- ❑ US economic strength also a key driving force
  - ❑ 3.5 % in Q1, same in Q2?
  - ❑ Latest ISM manufacturing index 51.4, lowest since June 2003
- ❑ Geopolitical uncertainty keeps potential supply disruptions in focus
- ❑ High prices not leading to an upstream investment surge yet – still some barriers
- ❑ Russian crude output growth slowing
- ❑ Most commodities have seen strong gains, not just oil



# Economic Growth Remains Primary Driving Force





## Strong signs that high prices are due to fears over fourth quarter supplies

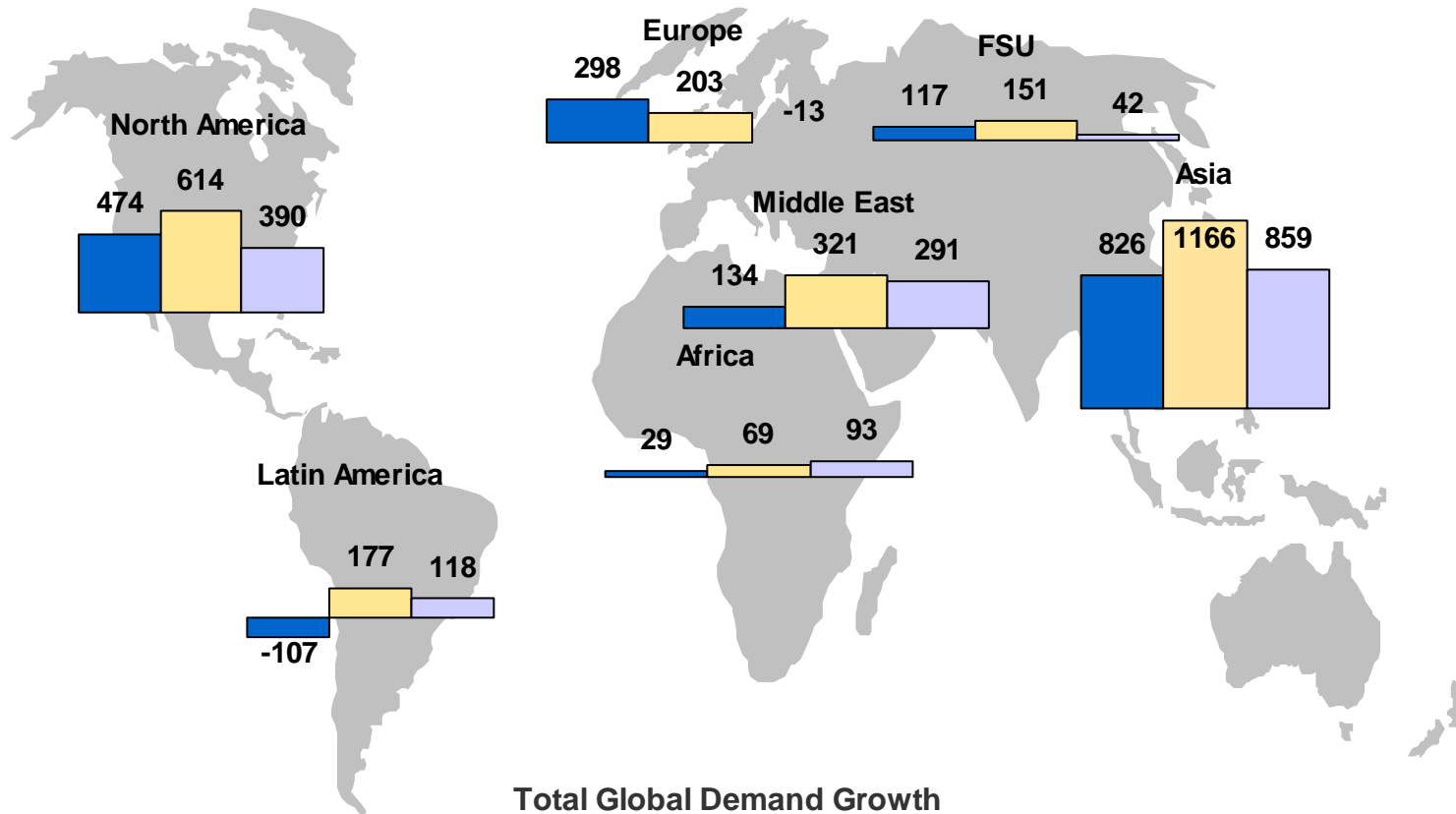
- ❑ IEA does not see such a problem, but we are not the consensus
- ❑ Fears of distillate tightness in Q4
- ❑ More supply from other FSU, West Africa and others
- ❑ Non-OPEC oil supply growing by 865 kb/d in 2005, concentrated H2
- ❑ Plus growth in OPEC capacity
- ❑ Supply balance between sweet and sour crude better than 2004
- ❑ Lower Q4 refinery maintenance in Europe
- ❑ US refiners increasing light product yields, emphasis on distillate production
- ❑ Stocks improving, particularly in crude and gasoline, but demand growth places a ceiling above days forward cover

**OPEC caution at raising supplies is contributing to concern that supplies will be drip-fed**



## Global Demand Growth 2003/2004/2005

thousand barrels per day

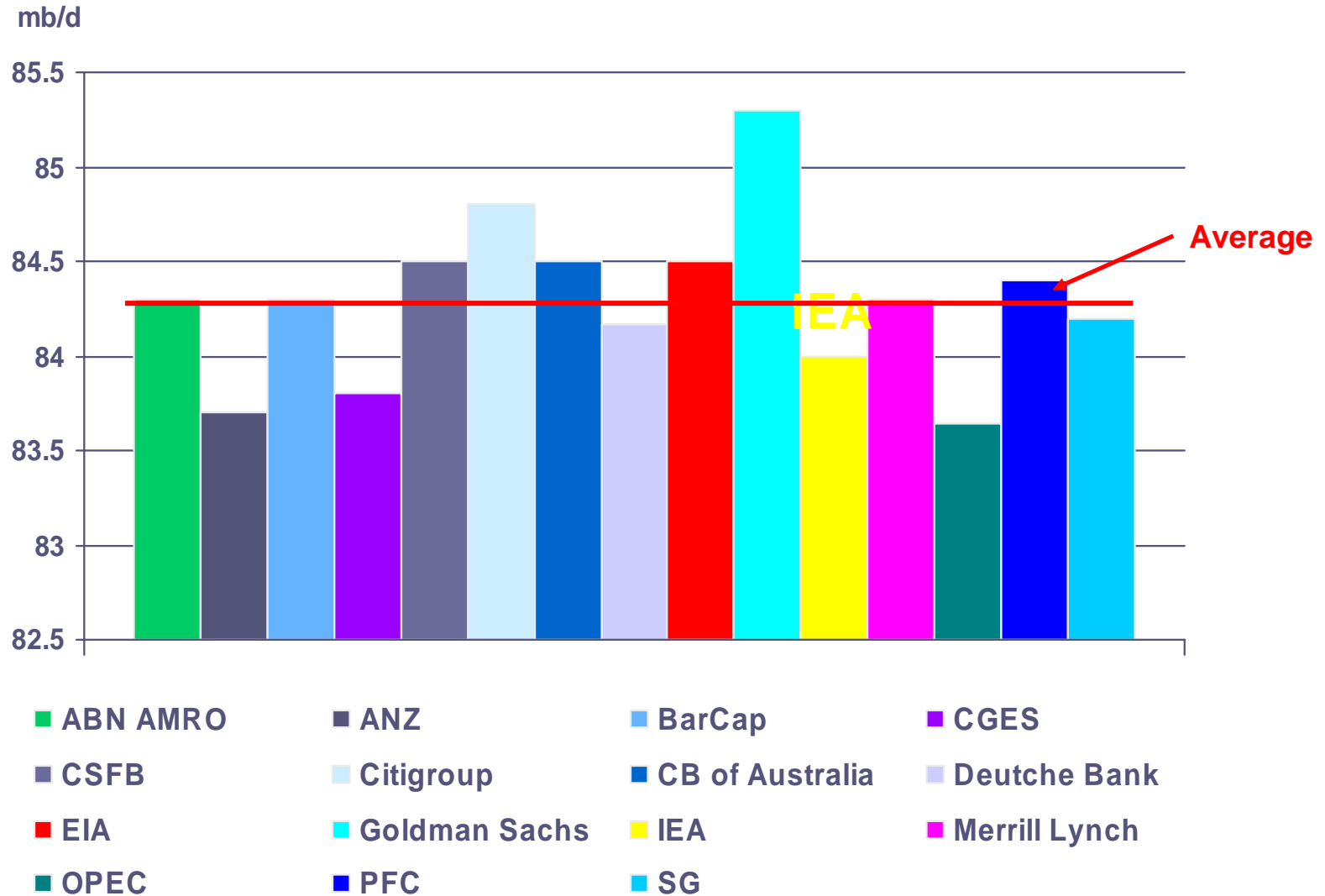


### Total Global Demand Growth (kb/d)

2002	1771	2.3%
2003	2700	3.4%
2004	1780	2.2%



# Global Demand Forecast 2005

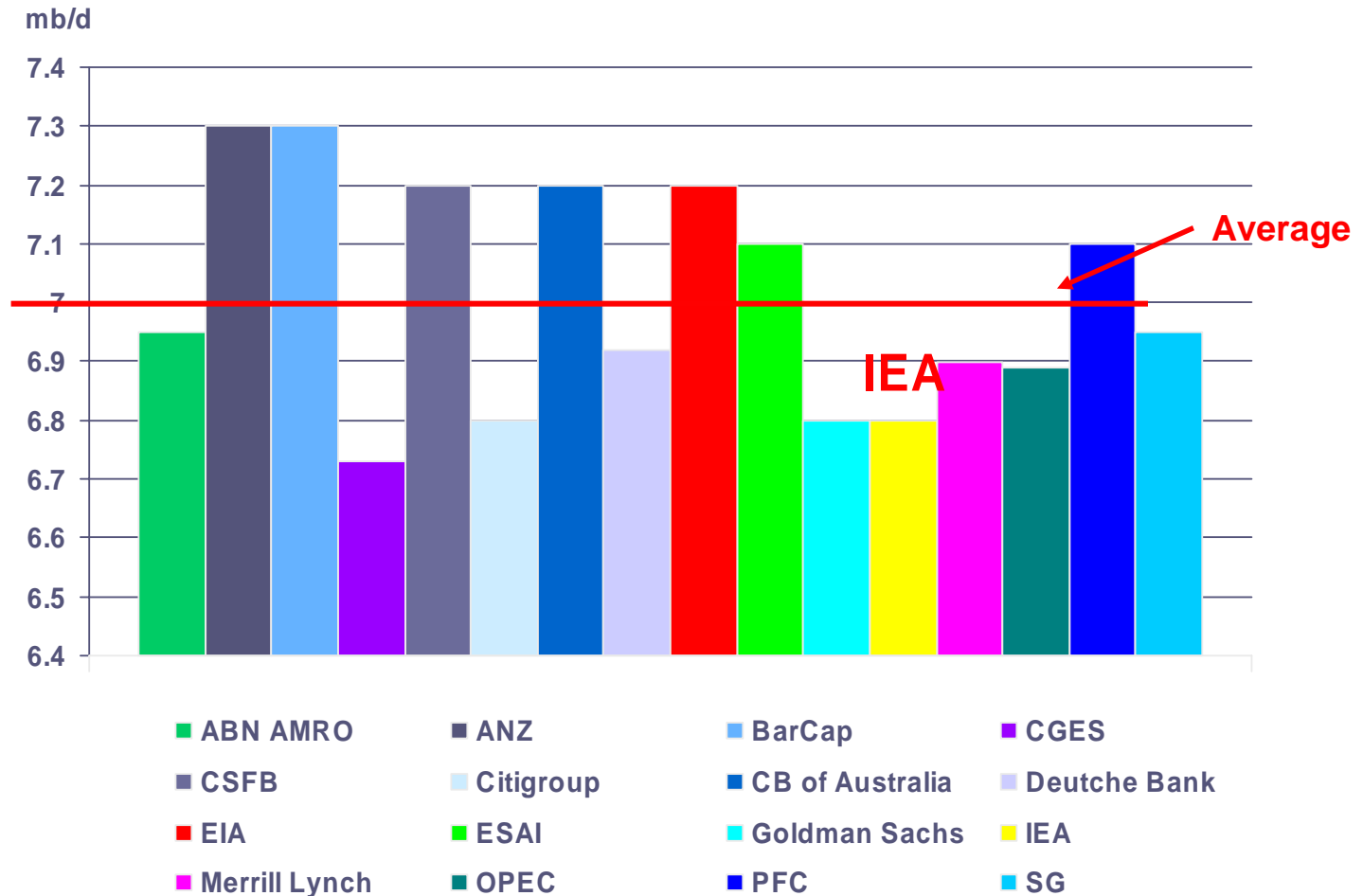


For comparison reasons, IEA data from February OMR is used.

Due to baseline demand revisions, current IEA world demand forecast for 2005 is 84.3 mb/d



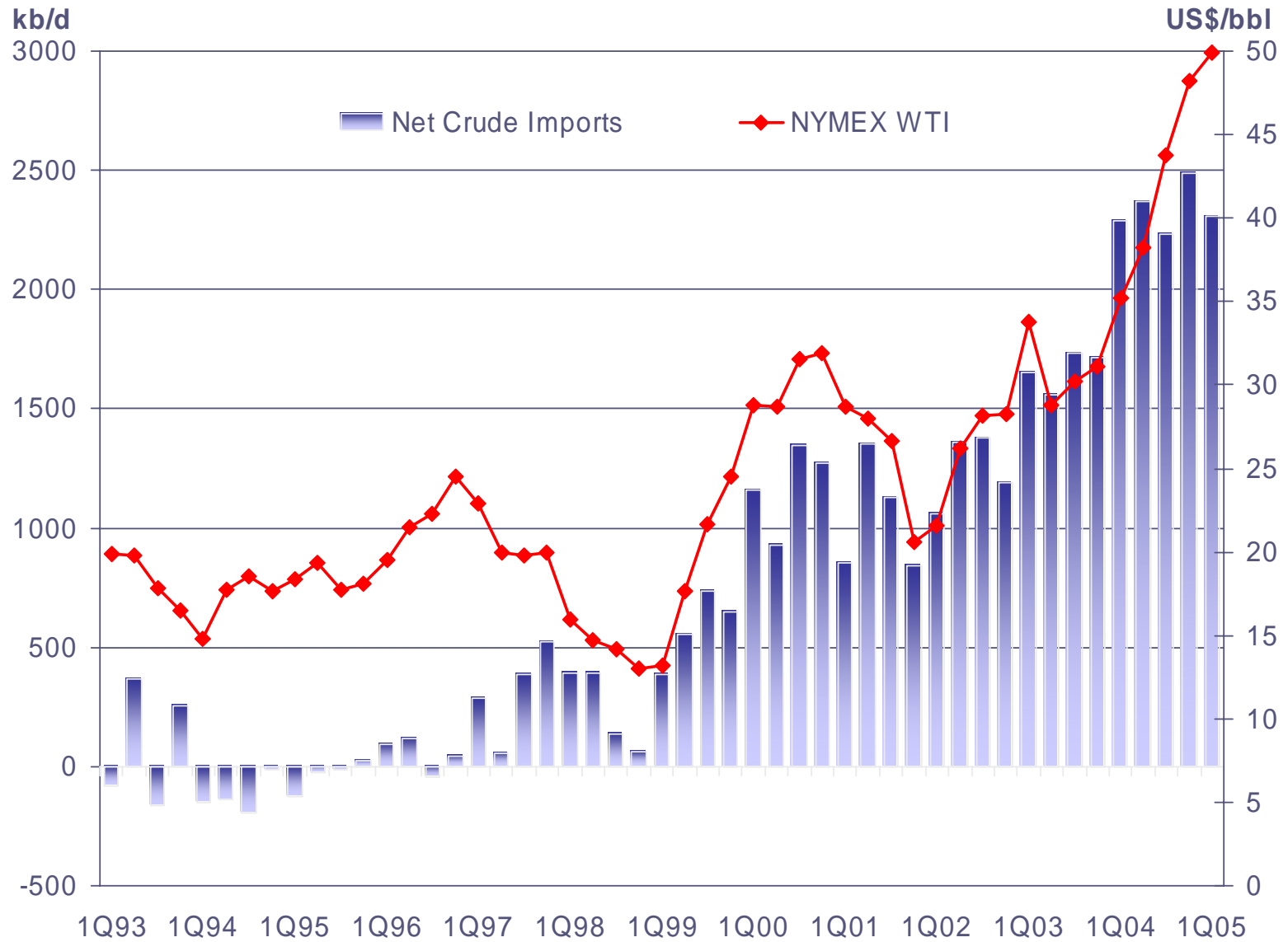
# Chinese Demand Forecast 2005



For comparison reasons, IEA data from February OMR report is used.  
 Current IEA forecast for Chinese demand for 2005 is 6.9 mb/d

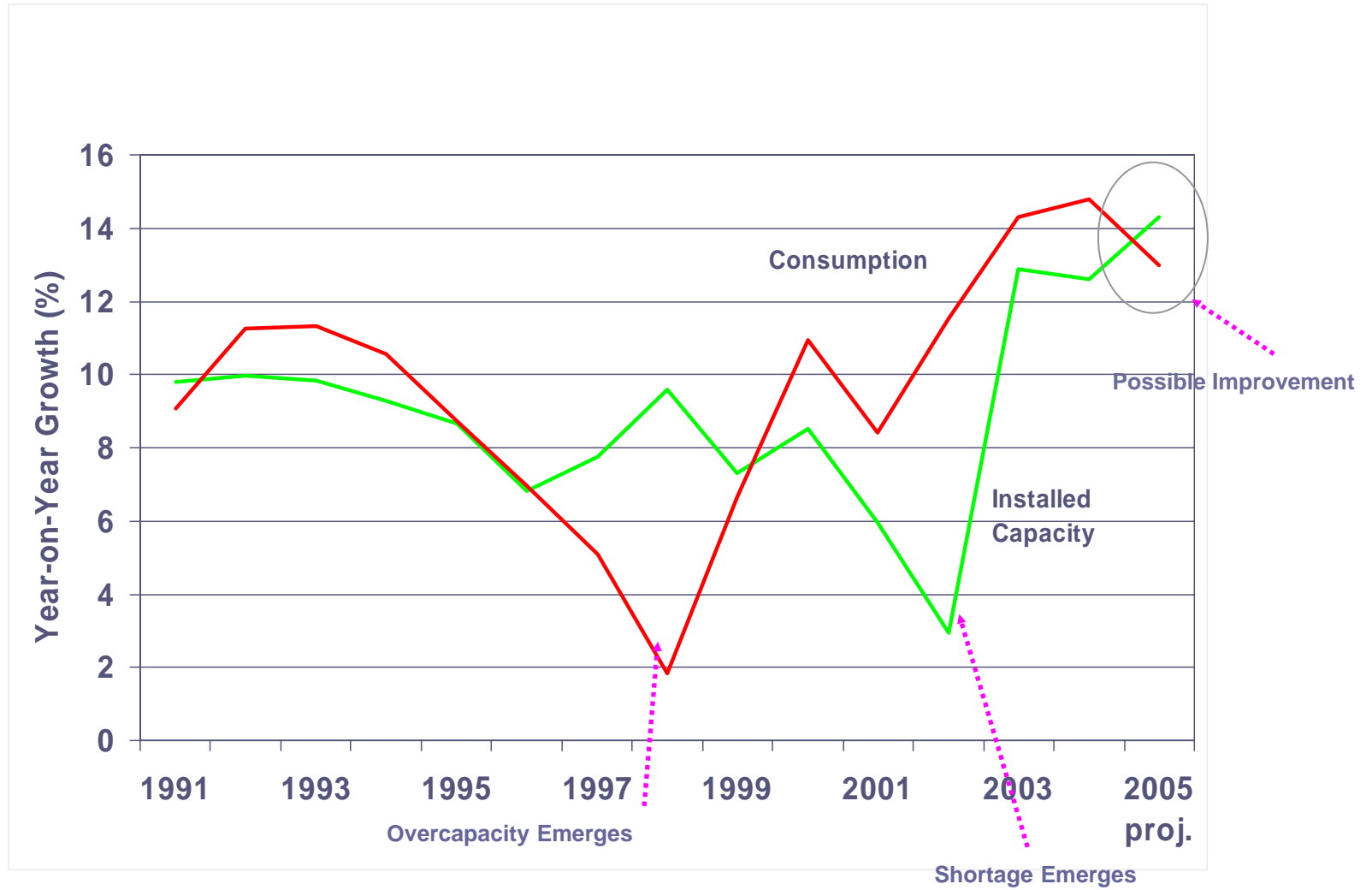


# Chinese Oil Imports





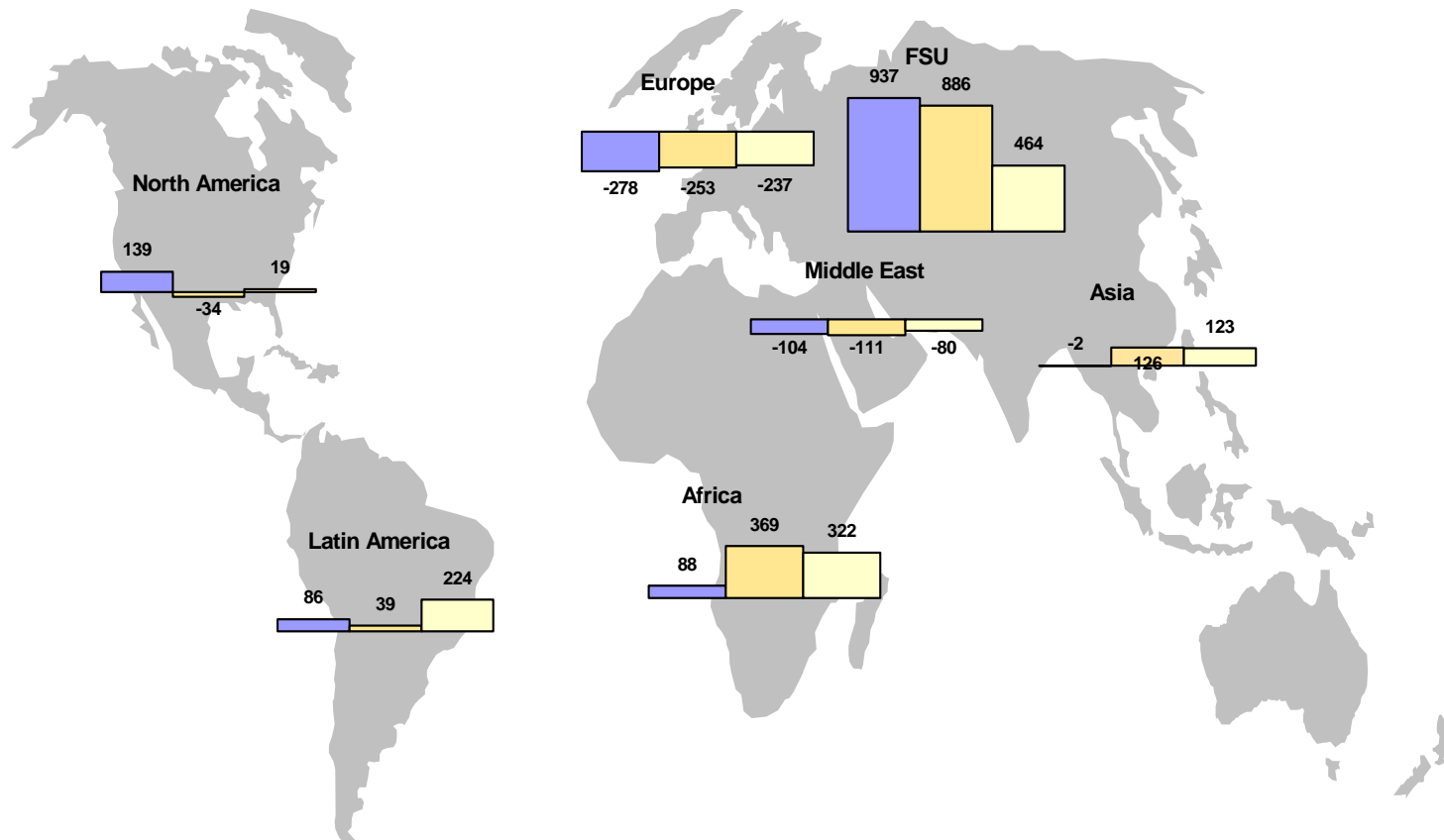
# Evolution of China's Power Imbalance





## Non-OPEC Supply Growth 2003/2004/2005

Thousand barrels per day



### Total Non-OPEC Supply Growth (kb/d)

2002	911
2003	1053
2004	865

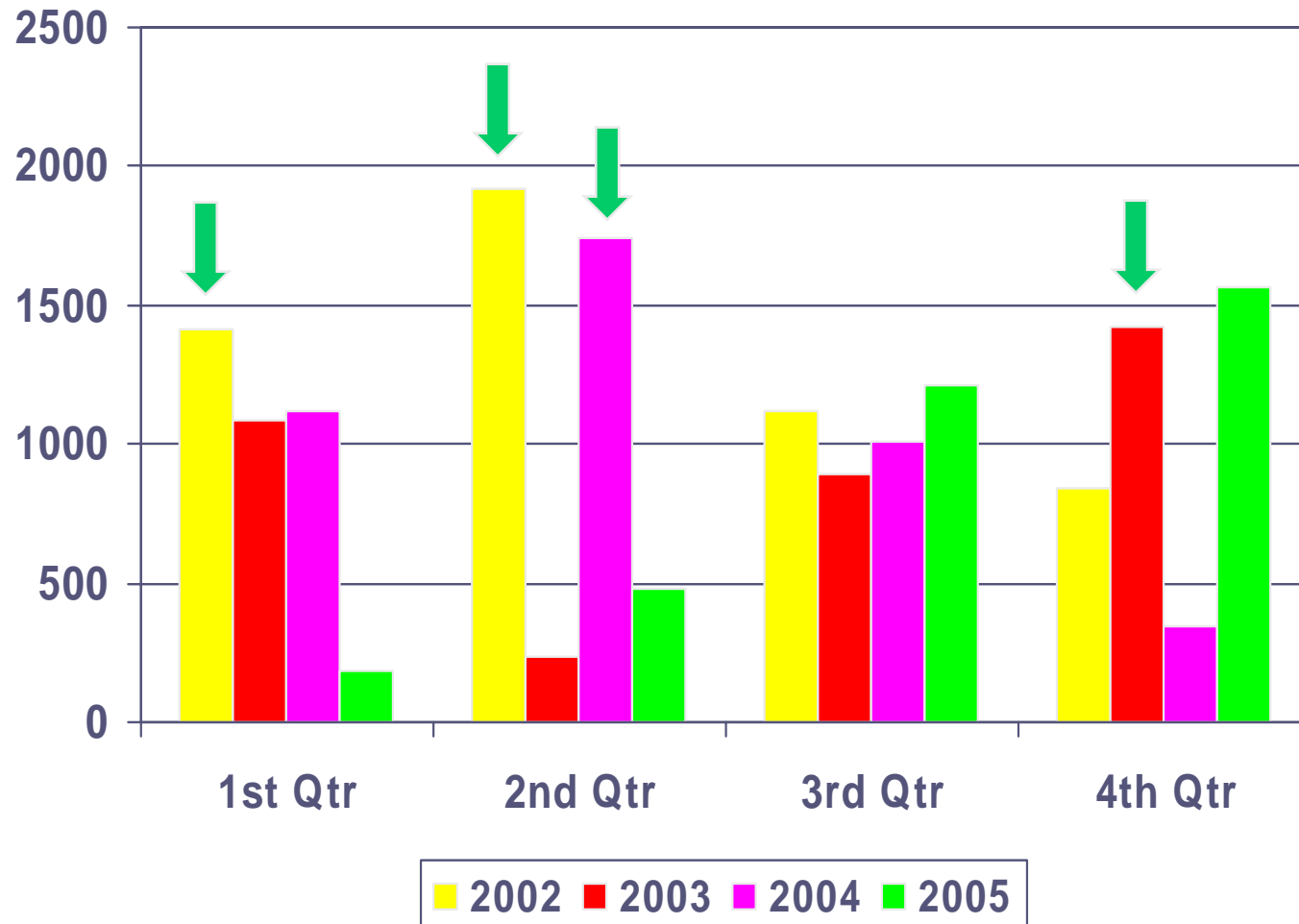
### OPEC NGLs (kb/d)

2002	198
2003	418
2004	468



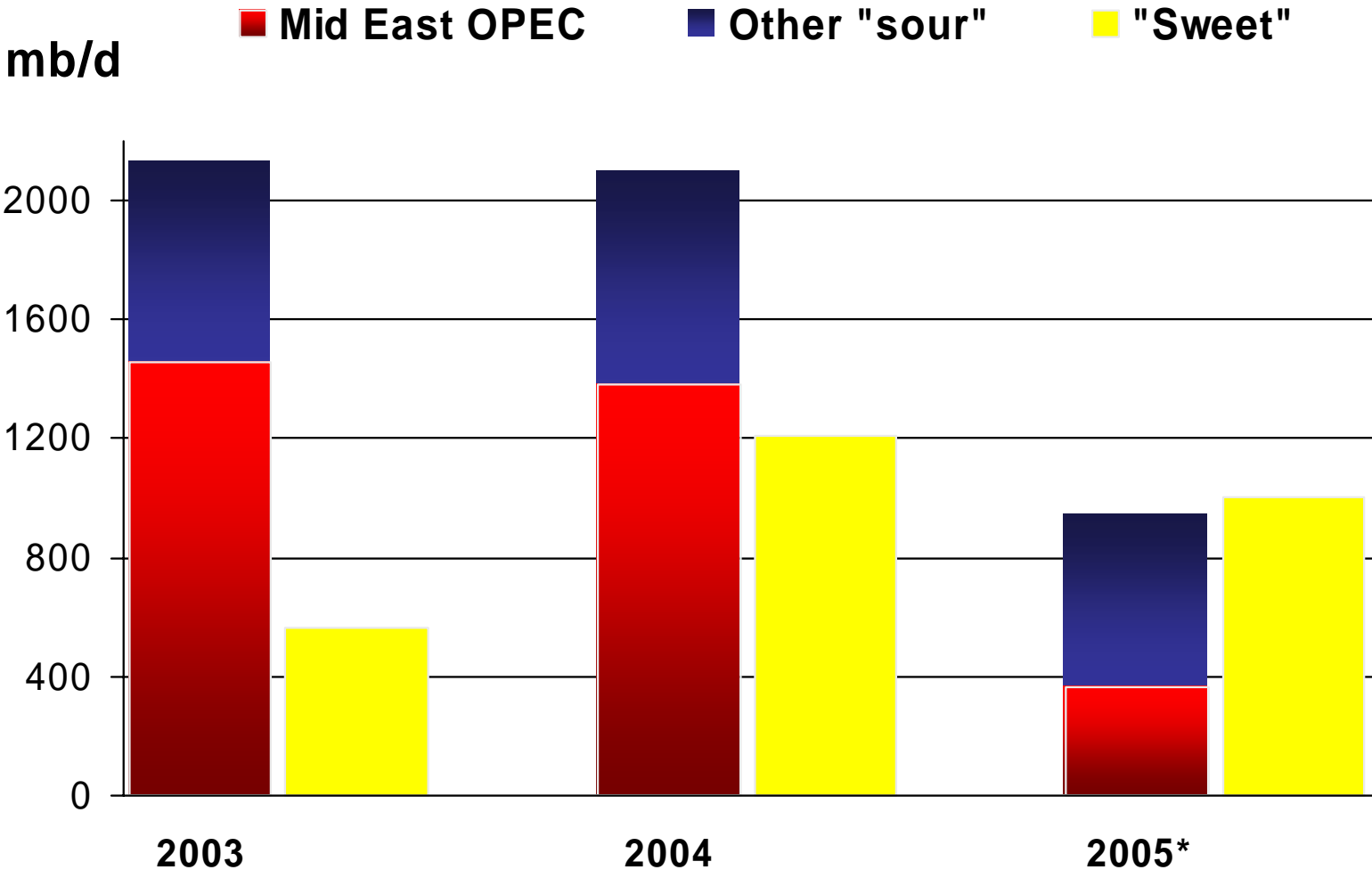
## Non-OPEC Supply ... Back-End Loaded in 2005 Year-on-Year Growth, kb/d

*+1.5 mb/d growth is strong, but not unprecedented*





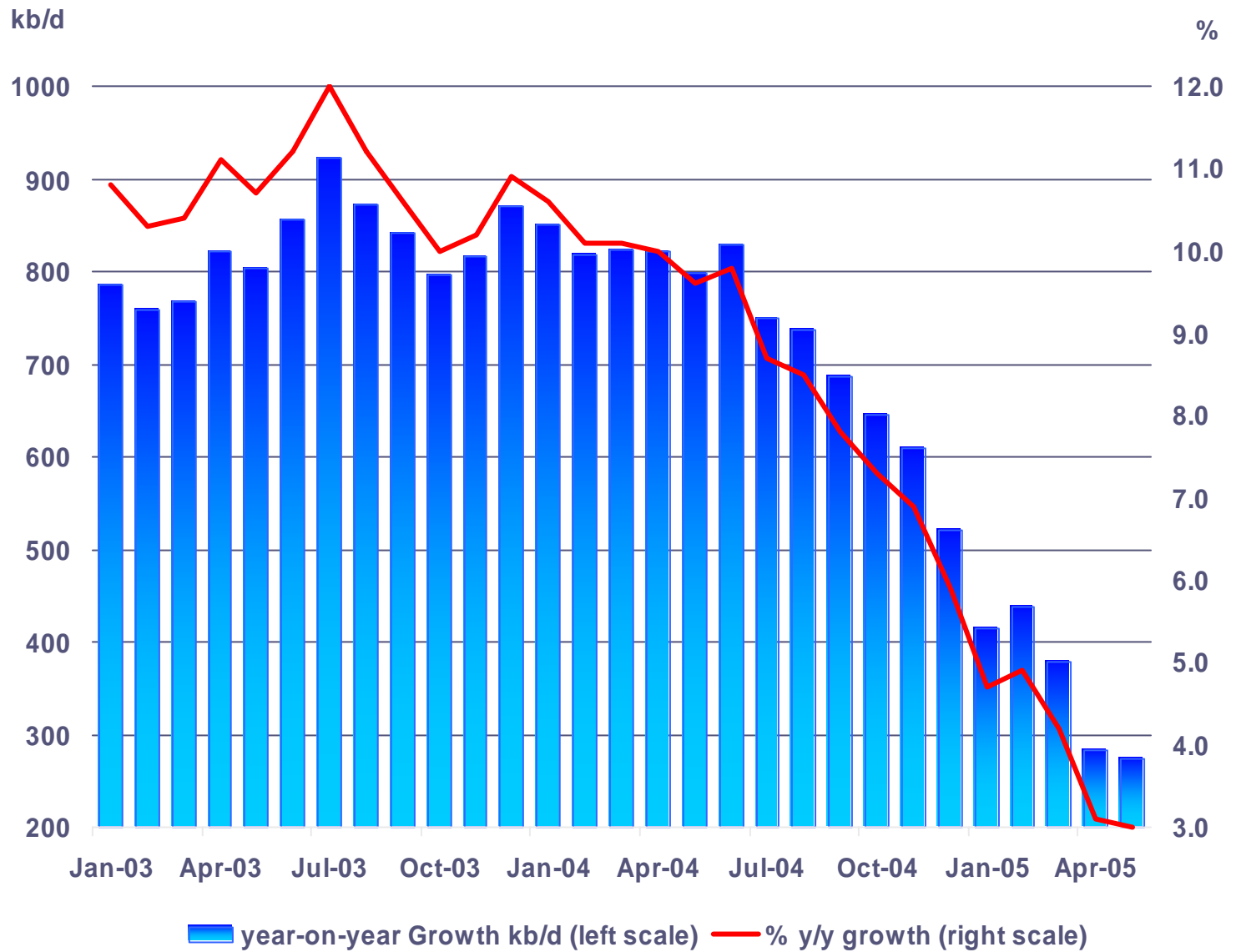
# Better Balance in 2005 Between Sweet & Sour Crude Availability



*Incremental world oil supply, by quality*

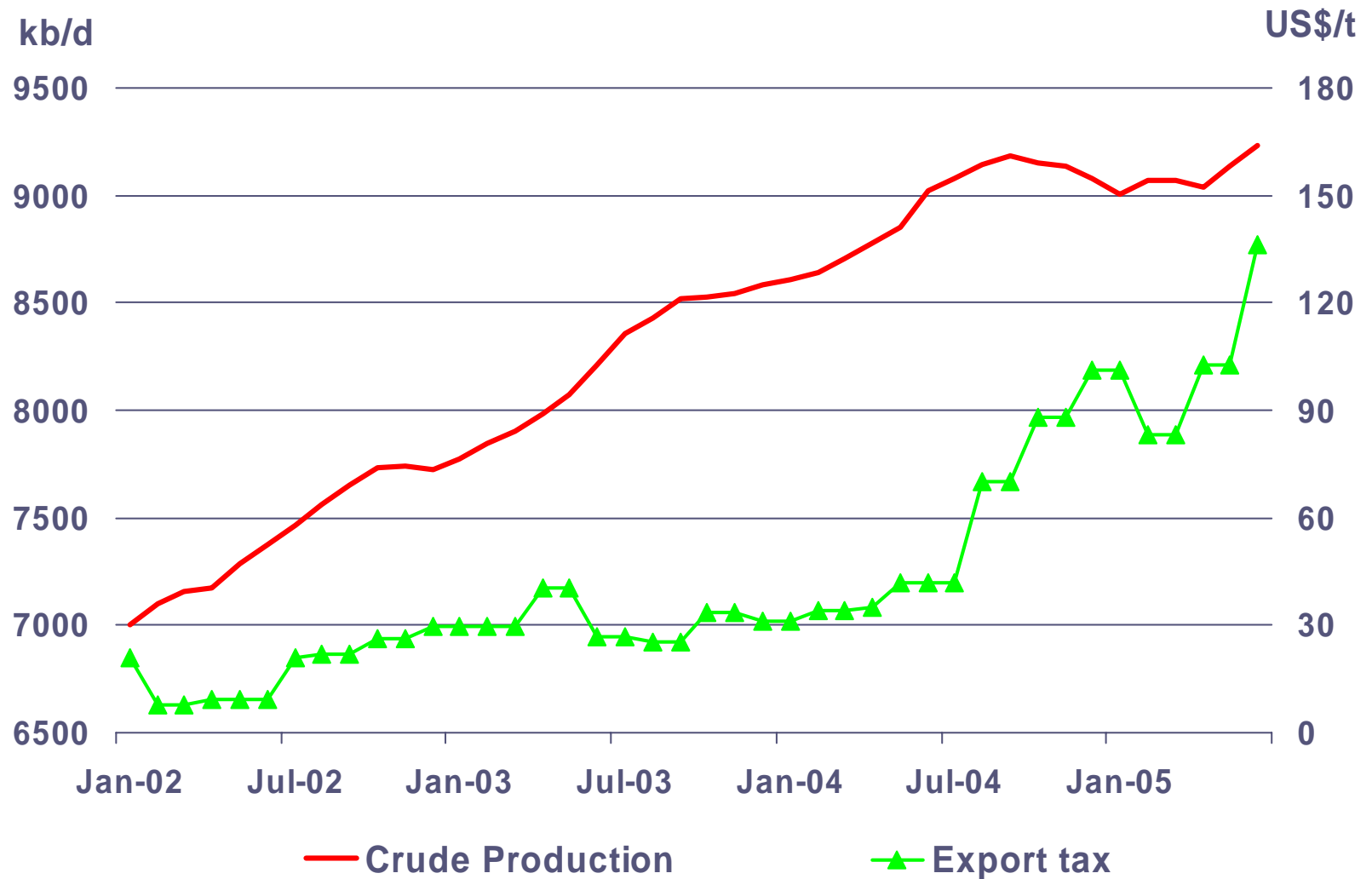


## ... But Russian Growth Now Slowing



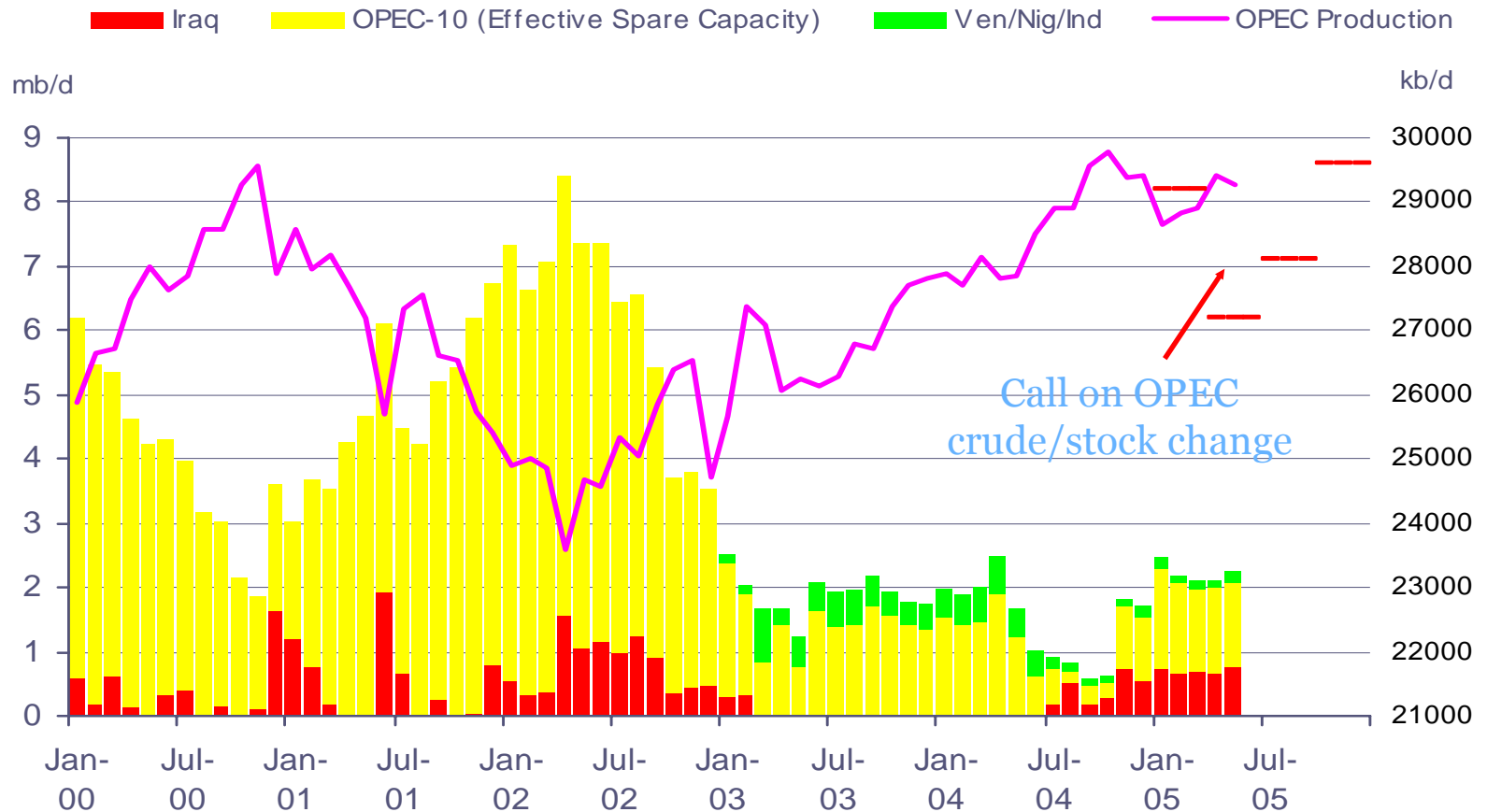


## Russian Fiscal, Regulatory and Investment Climate Has Worsened





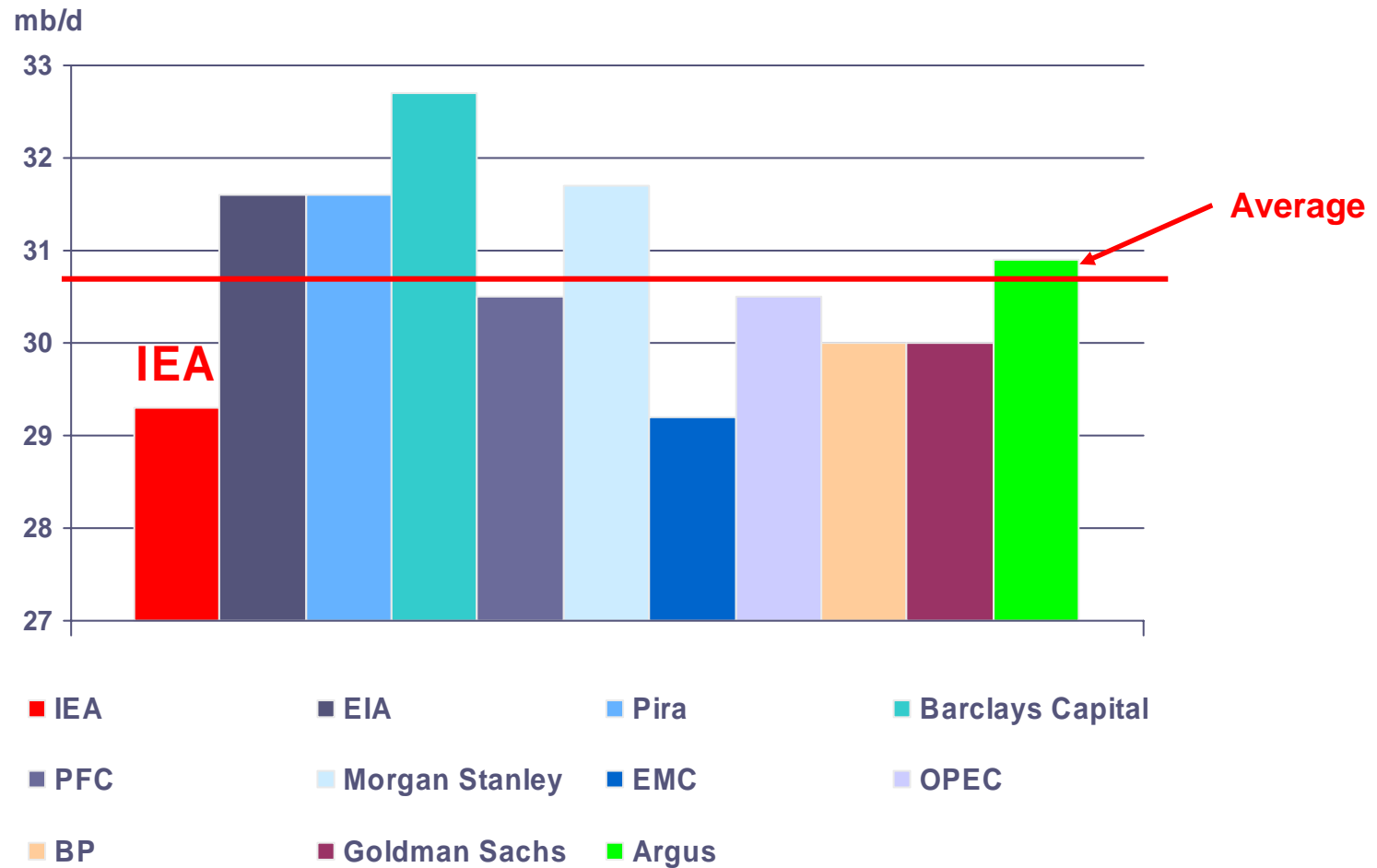
# OPEC Increasing Output After Q1 Cut Spare Capacity Improving ... Slowly



Effective spare capacity (excl. Iraq/Venezuela/Nigeria/Indonesia) around 1.35 mb/d



## 3.5 mb/d-Range in OPEC Q4 2005 Call



Comparison made as of May OMR report. Current IEA call for Q4 2005 is 29.6 mb/d



## Summary

- ❑ Recent high prices initially diesel-led, but post-OPEC crude-led
- ❑ Considerable divergence in forecasts for 2005 and beyond - but particularly in Q4
- ❑ China demand and Russian supplies remain a key area of debate
  - ❑ So far in 2005 demand growth has been well below 2004 levels
  - ❑ IEA sees rebound in FSU production this year
- ❑ Enough non-OPEC and OPEC capacity planned through to 2010 to meet 2% demand growth
- ❑ No clear surge in refinery or upstream investment, meaning that spare capacity will recover only slowly
- ❑ Market will tighten/weaken during cyclical economic upswings/downswings